

Message Text

CONFIDENTIAL

PAGE 01 JAKART 10089 290940Z

ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /099 W
-----131040 291122Z /20

R 290900Z JUL 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 2777

C O N F I D E N T I A L JAKARTA 10089

E.O. 11652:GDS

TAGS: ENRG, ID

SUBJECT: IRS TAX RULING ON INDONESIAN OIL OPERATIONS

1. DURING MY CALL ON MINISTERS WIDJOJO AND PRAWIRO JULY 28, WE DISCUSSED, INTER ALIA, INDONESIA OIL PRODUCTION PROSPECTS. WIDJOJO SAID FUTURE PRODUCTION LEVELS DEPEND CRITICALLY UPON RESUMPTION OF EXPLORATION ACTIVITY AND, IN HIS VIEW, RESUMED EXPLORATIONS WILL DEPEND VERY IMPORTANTLY ON POSITION IRS TAKES ON TAX TREATMENT ACCORDED US COMPANIES OPERATING UNDER PRODUCTION-SHARING CONTRACTS IN INDONESIA.

2. IN OUR MEETING, WIDJOJO SEEMED PARTICULARLY CONCERNED ABOUT POSSIBLE IRS INSISTENCE THAT INDONESIA ALLOW COMPANIES TO WRITE-OFF COSTS OF UNSUCCESSFUL DRILLING EFFORTS ANYWHERE IN INDONESIA AGAINST THEIR SUCCESSFUL OPERATIONS. WIDJOJO MAINTAINS THAT IF TAX CONSIDERATION IS ALLOWED ON THIS BASIS IT WIL ALTER FUNDAMENTALLY THE NATURE OF THE PRODUCTION-SHARING CONCEPT AS APPLIED IN INDONESIA. AT PRESENT, COMPANIES BEAR ALL OF THE RISK OF EXPLORATORY ACTIVITY AND PROFIT SPLIT OF PRODUCTION-SHARING CONTRACTS REFLECT THAT PRECEPT. IF COMPANIES CAN CONSOLIDATE PROFITS AND LOSSES FOR INDONESIAN TAX PURPOSES, THEN GOI, IN EFFECT, BECOMES RISK-BEARER AS WELL IN NEW EXPLORATION ACTIVITY.

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POSES, THEN GOI, IN EFFECT, BECOMES RISK-BEARER AS WELL IN NEW EXPLORATION ACTIVITY.

3. WIDJOJO SAID GOI HAS ASKED ITS LAWYERS ROGERS AND WELLS TO GO BACK TO IRS AGAIN TO TRY TO PERSUADE IRS TO CHANGE ITS POSITION ON CONSOLIDATION. WIDJOJO ANTICIPATES THIS COULD BECOME DIFFICULT PROBLEM.

NEWSOM

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Message Attributes

Automatic Decaptioning: X
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Sent Date: 29-Jul-1977 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
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